

# SWITCH to Competition - Regulatory Challenges for Namibia's Telecommunication Sector

Dr. Christoph Stork



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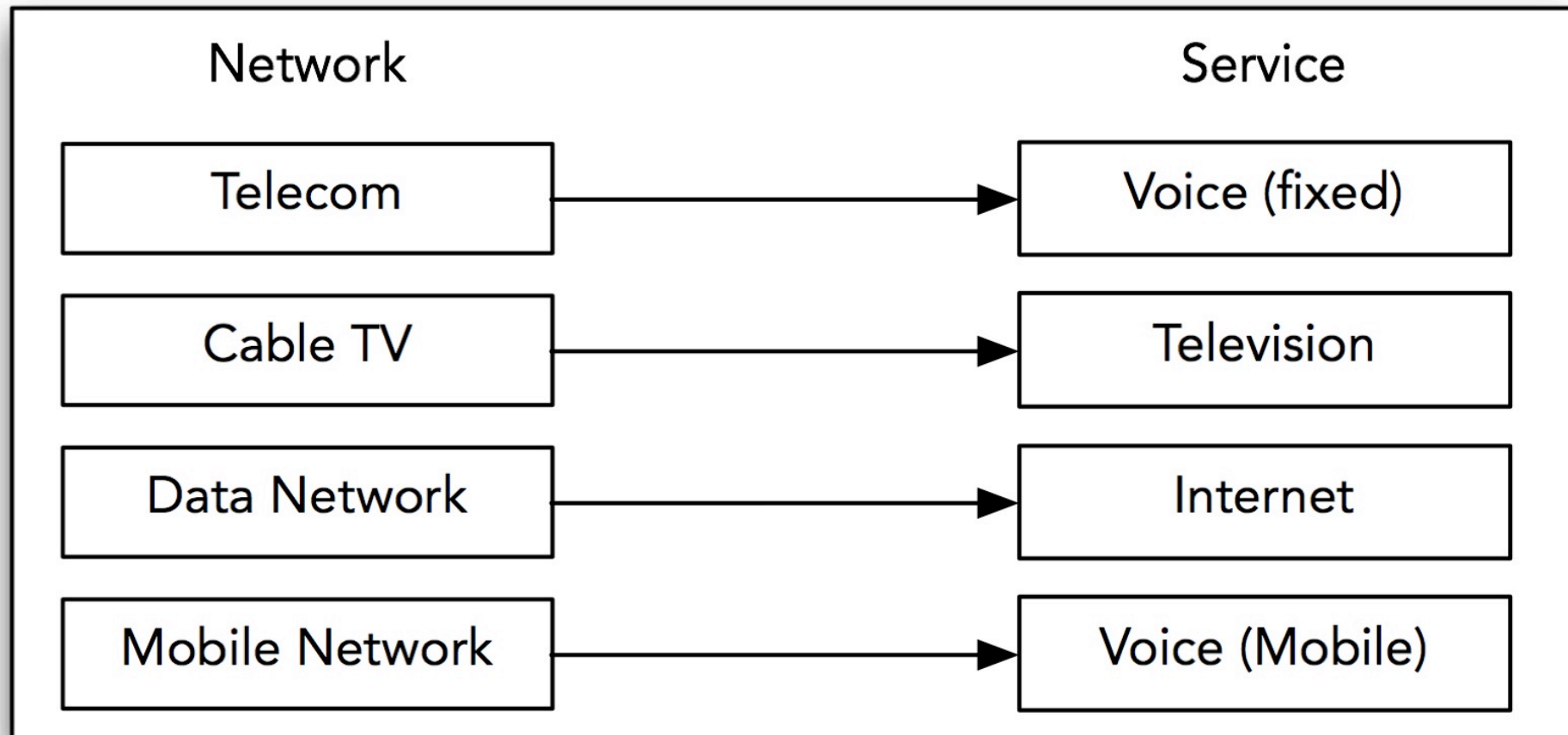


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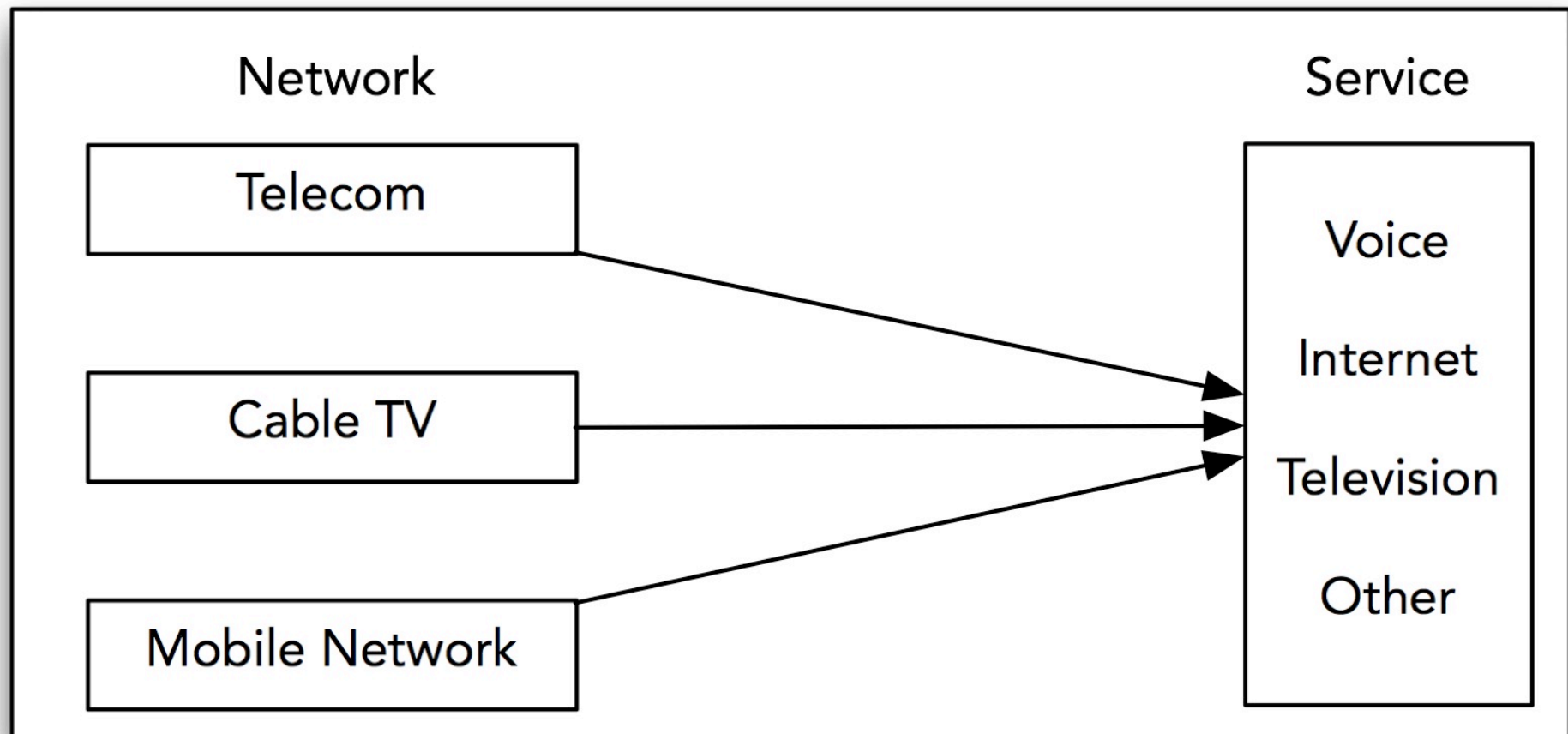


# Introduction

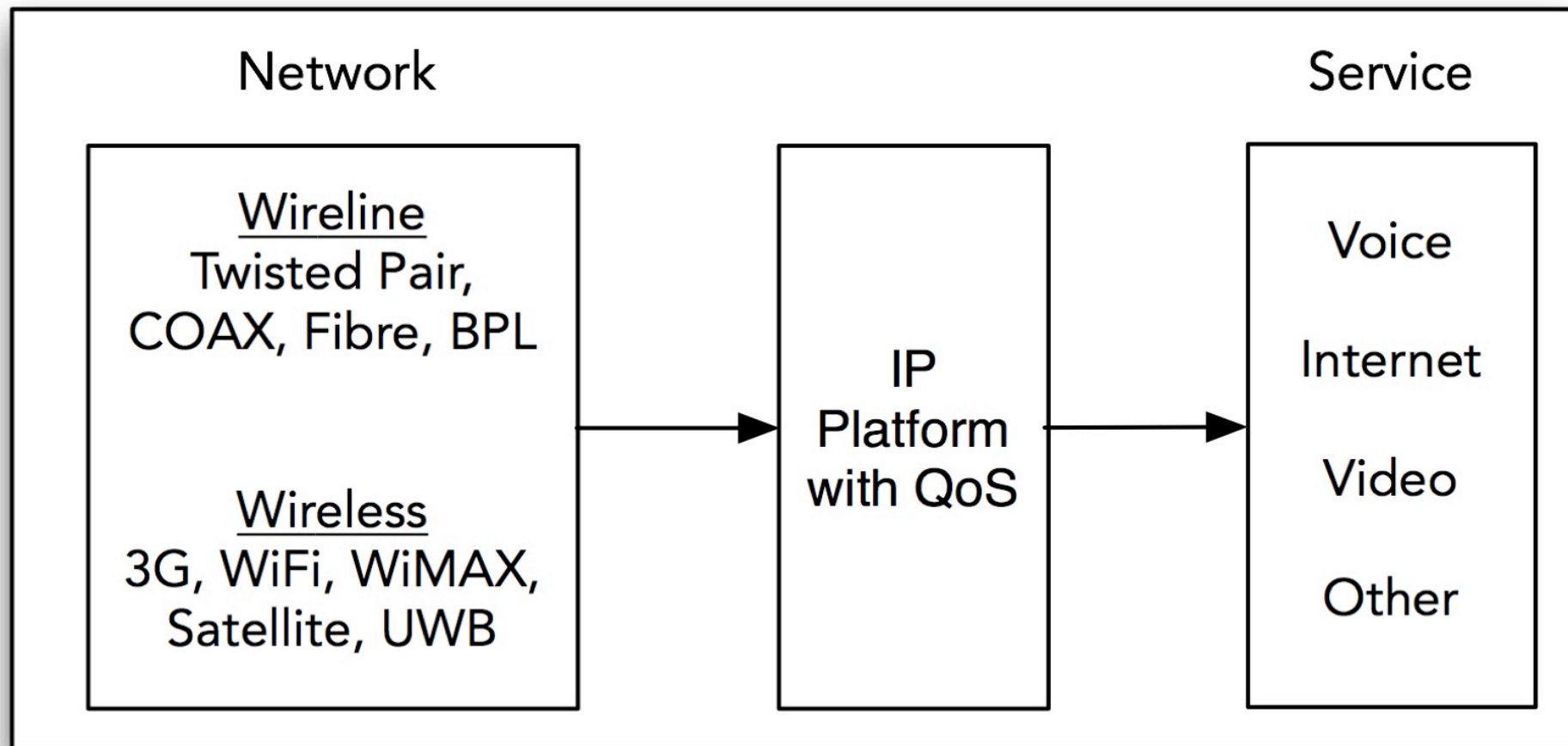
# Global Trends – Triple Play



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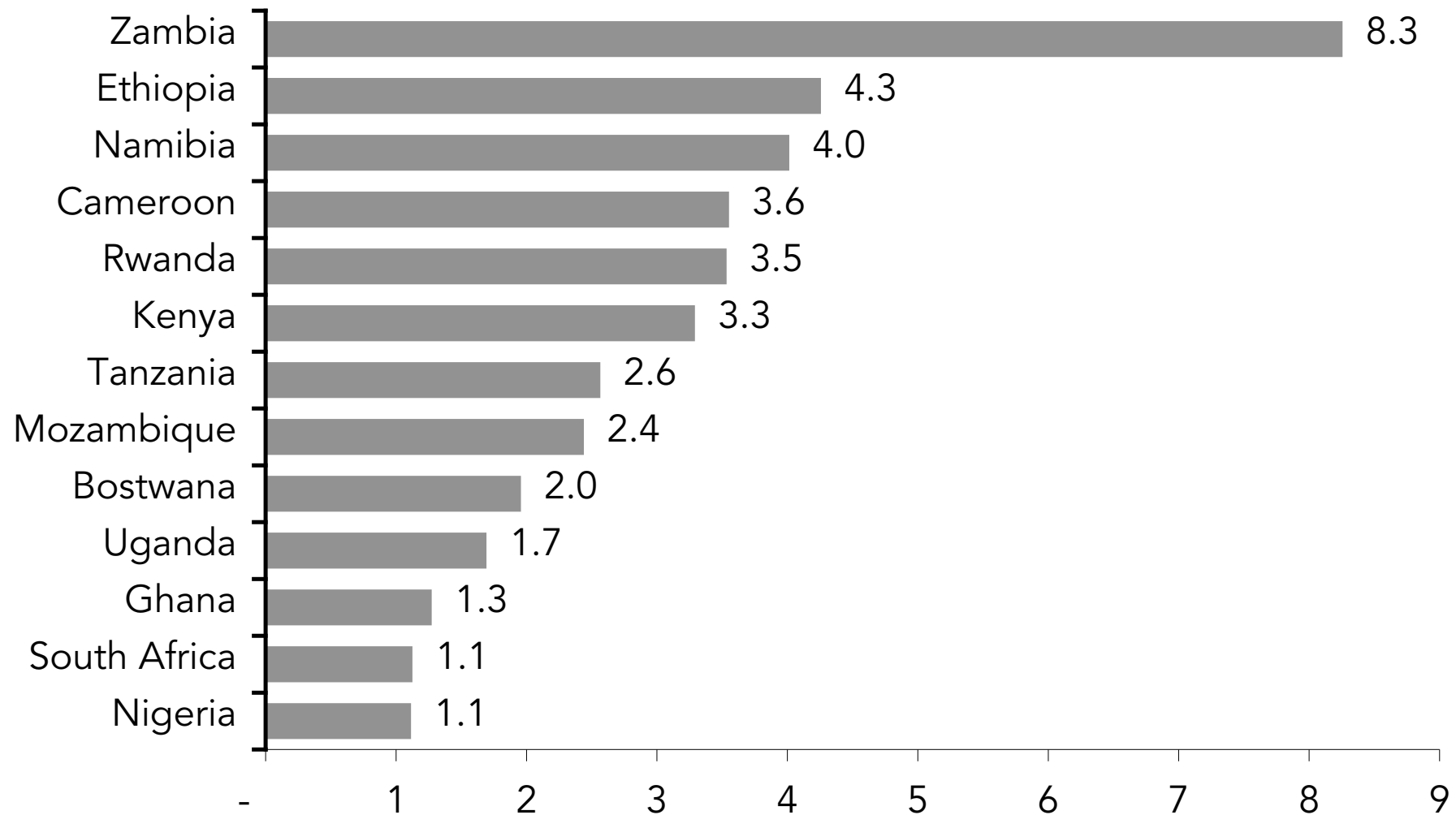


# Cost Comparison: RIA! usage basket

- Fixed-line:
  - 3 minute local call;
  - 3 minute national call; and
  - 3 minute call to the US.
- Pre-paid Mobile
  - 3 minute off peak to same network;
  - 3 minute peak to same network;
  - 3 minute off peak to different network;
  - 3 minute peak to different network;
  - 3 minute off peak to fixed line;
  - 3 minute peak to fixed line.
- These basket definitions are based on the way the ITU collects data and do not make any explicit assumptions about usage pattern.

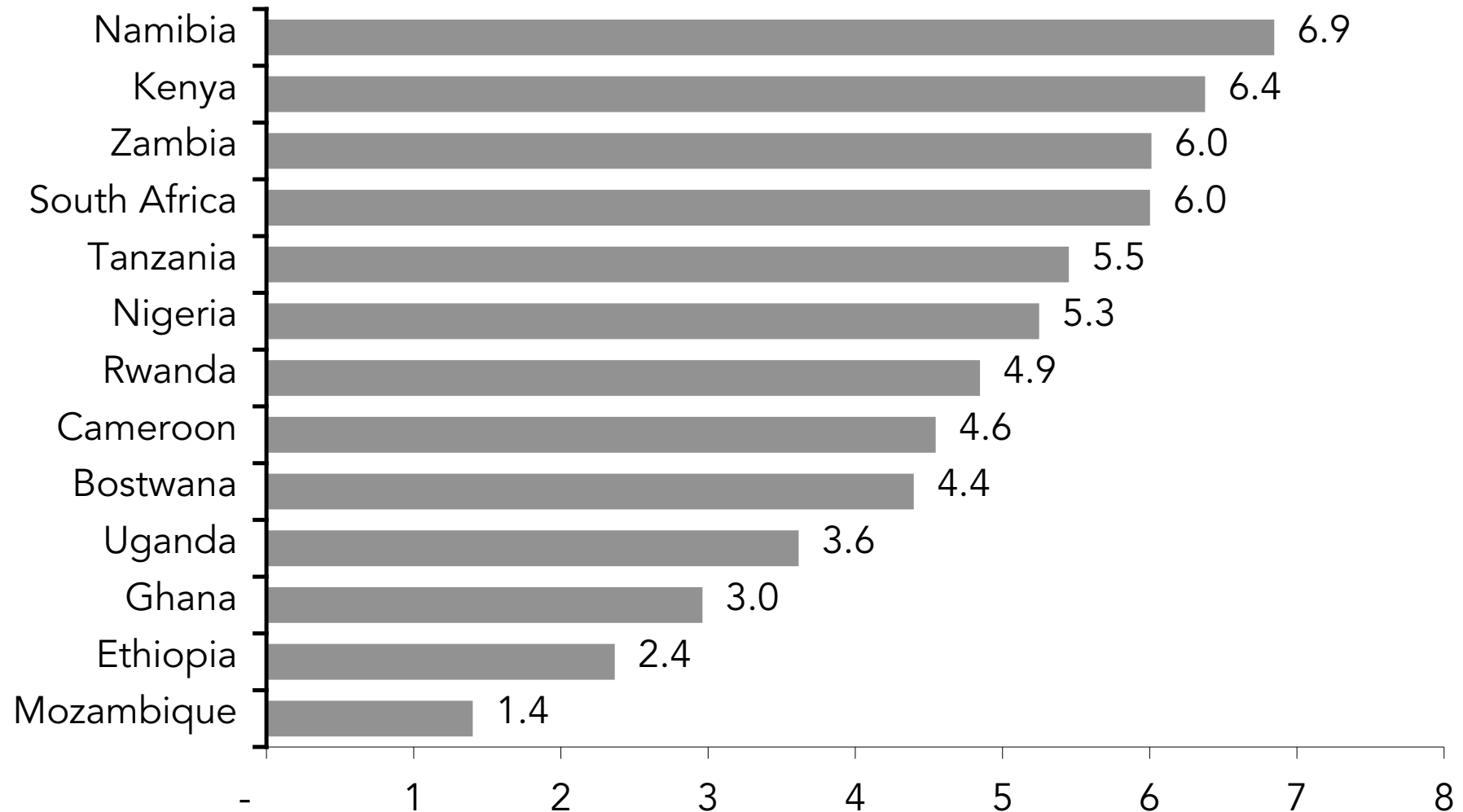
# Fixed-line RIA! usage baskets

US\$ using end of 2005 exchange rates (IMF)



# Mobile RIA! usage baskets

US\$ using end of 2005 exchange rates (IMF)





# Market Dynamics

# Market Dynamics



- Three operators will be offering telecommunication services at the beginning of 2007
  - Telecom Namibia
  - MTC
  - Cell One
- Cell One will need to attract a sizeable amount of customers quickly if it is to succeed in Namibia.
  - Be cheaper than MTC
  - Brand better
  - Better Service

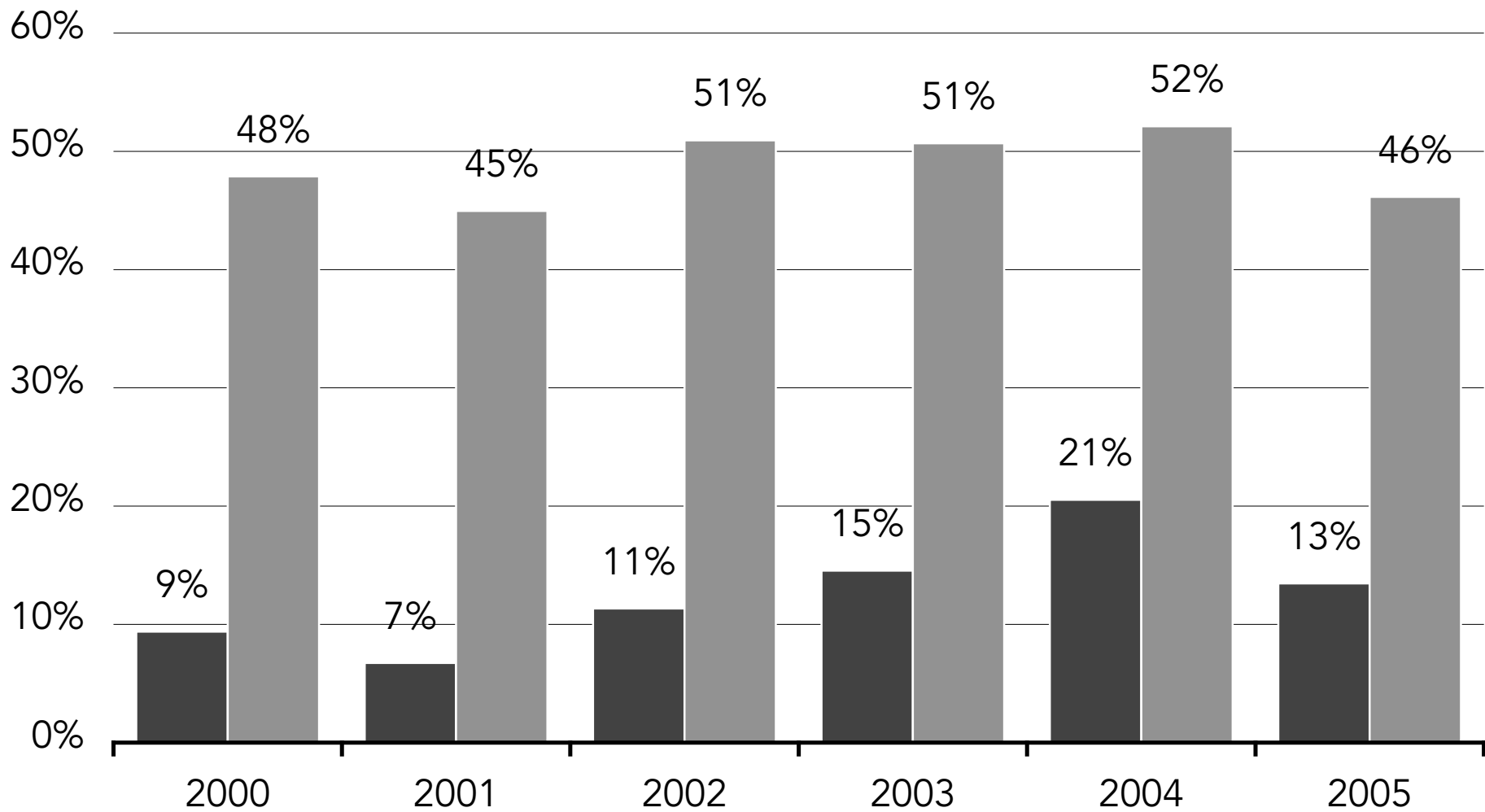
# Financial Ratios

$$RoE = \frac{NI}{SE} = \frac{NI}{S} \times \frac{S}{A} \times \frac{A}{SE}$$

- RoE = Return on Equity
- NI = Net Income after Tax
- SE = Shareholders' Equity
- A = Assets
- S = Sales
- Hence Return on Equity is equal to Profit Margin (Net Income/ Sales) x Asset Turnover (Sales/Total Assets) x Financial Leverage (Assets/Shareholders' Equity).

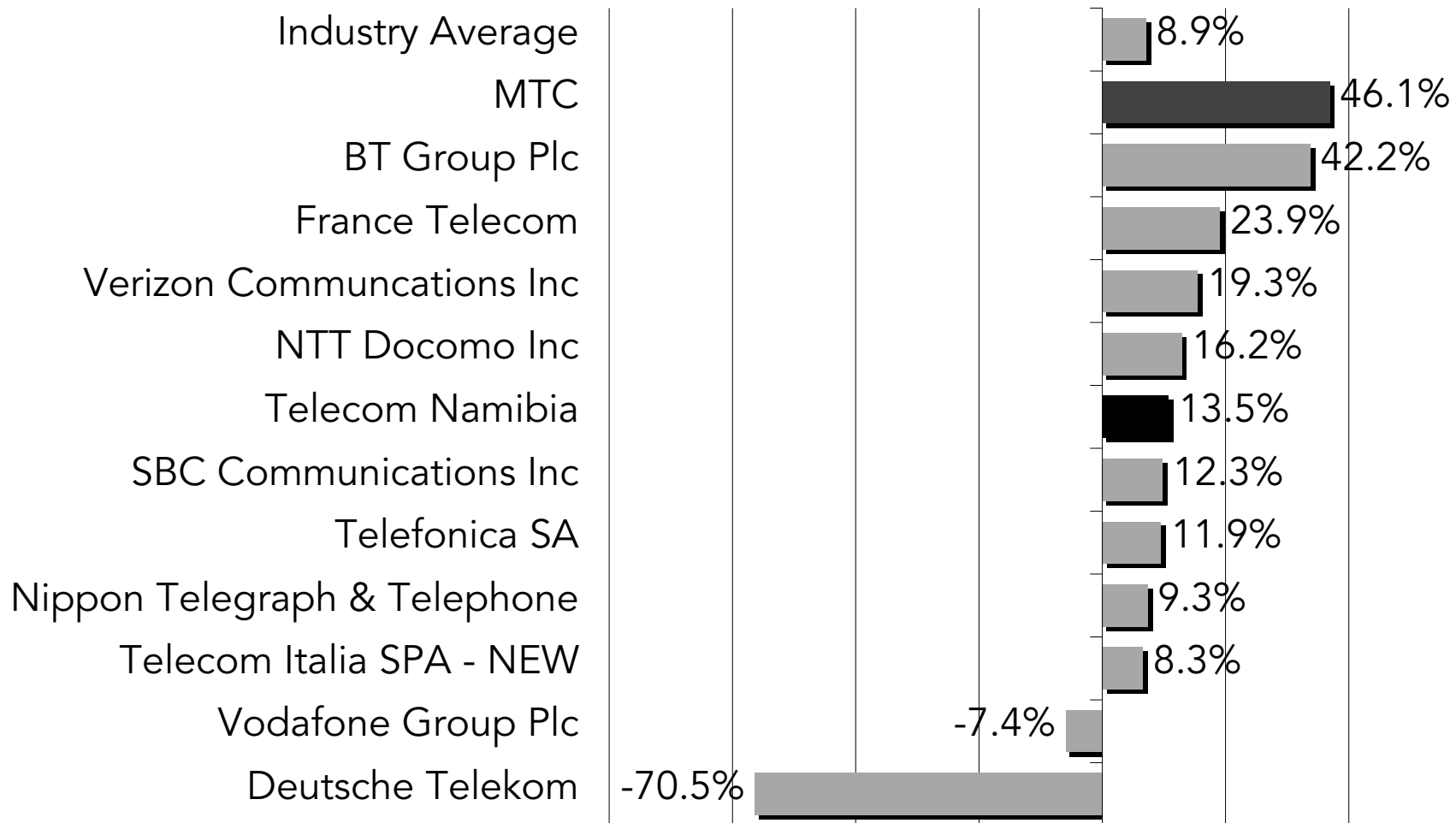
# Return on Equity

■ Telecom Namibia   ■ MTC



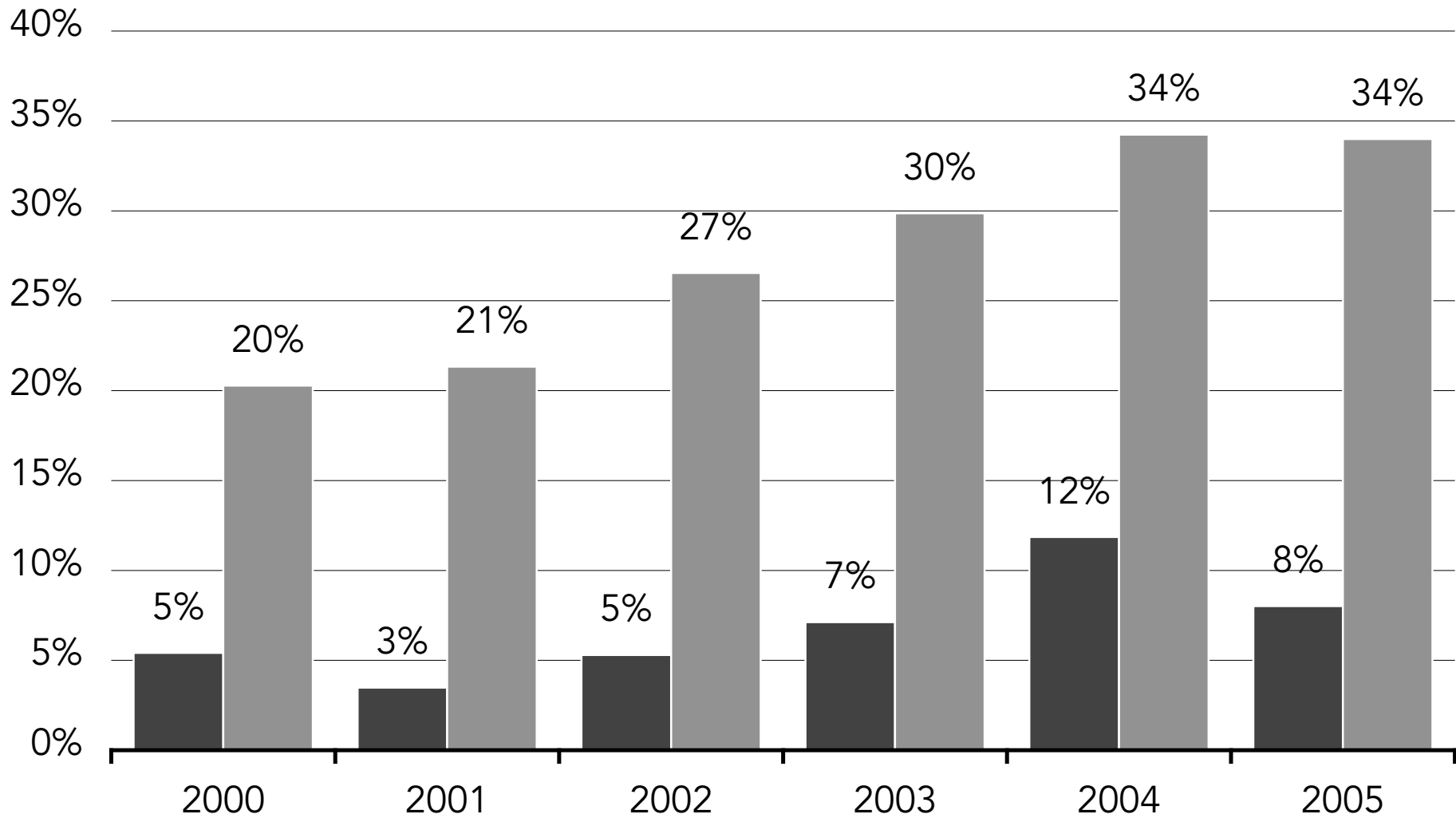
# Top 10 Telcos from S&P500 + MTC and Telecom Namibia

2005 Return on Equity



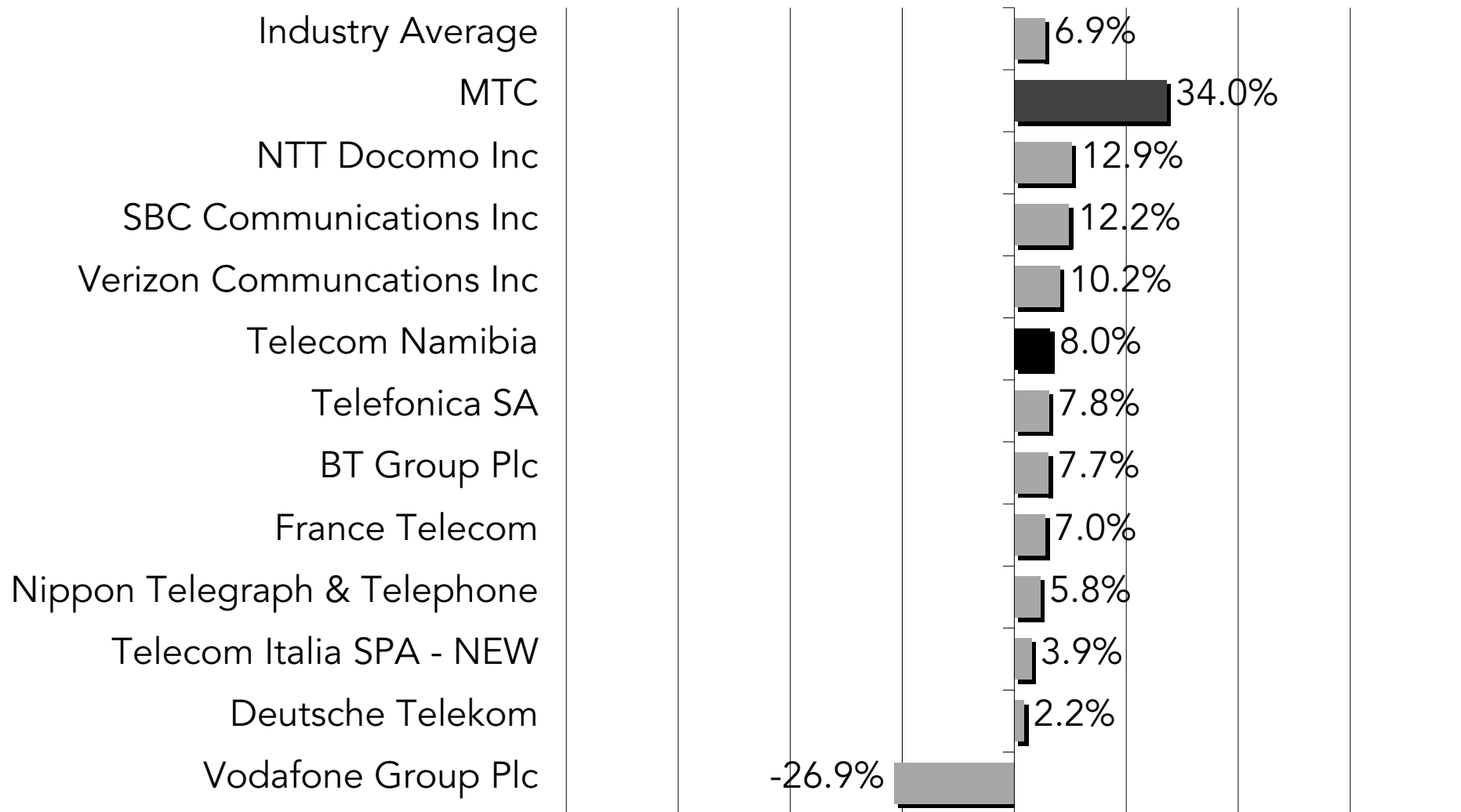
# Profit Margin

■ Telecom Namibia   ■ MTC



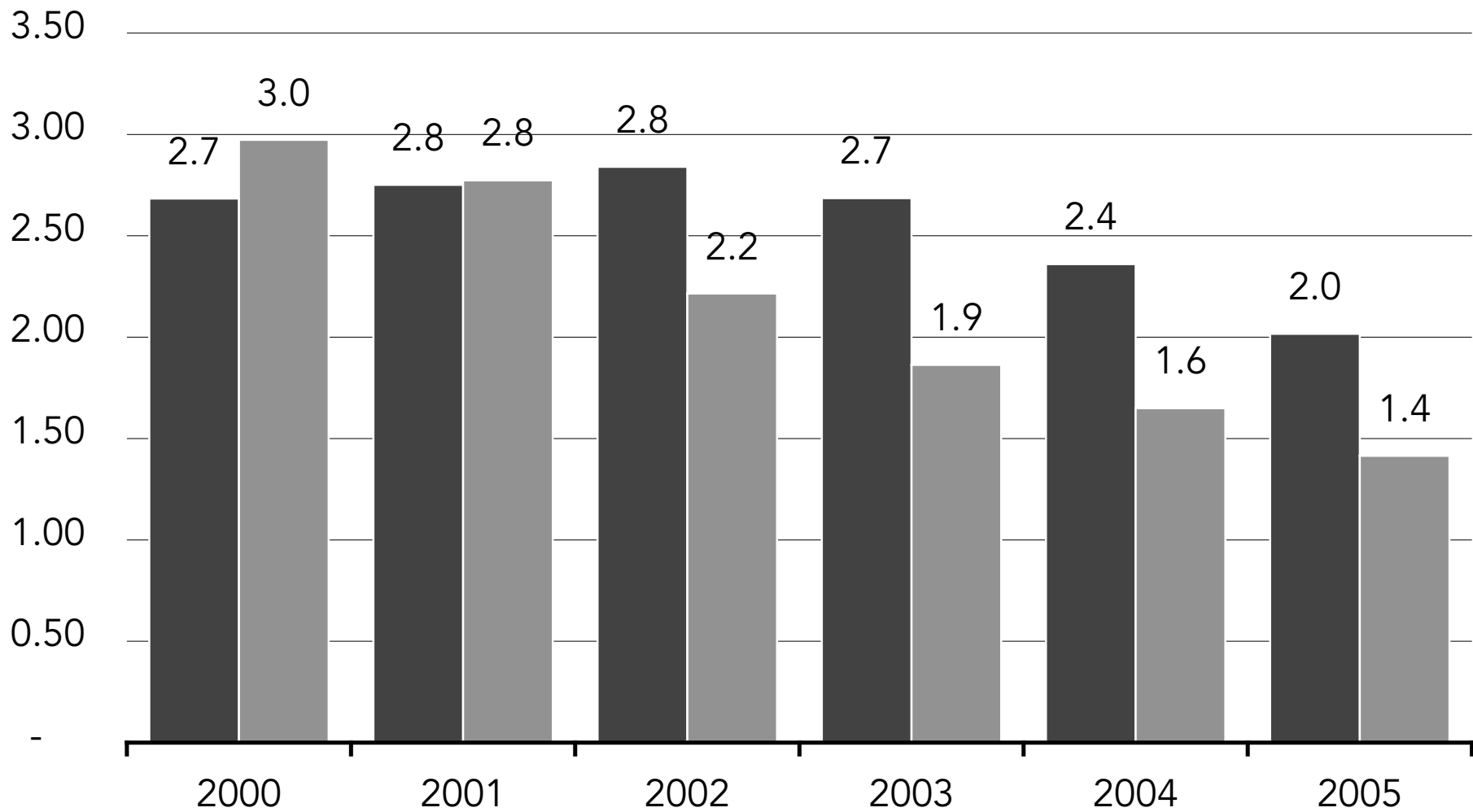
# Top 10 Telcos from S&P500 + MTC and Telecom Namibia

2005 Profit Margins



# Financial Leverage

■ Telecom Namibia   ■ MTC





Hence

- Cell One is unlikely to start a price war with MTC since it would stand little chance of winning it
- MTC's network expansion has been paid for by profits from previous years. Cell One needs solid profits in the near future to finance theirs.
- Cell One is therefore more likely to try to win new customers with the promise of better services and strong branding.

The title is centered and surrounded by six light purple circles. Two are solid and four are hollow. They are arranged in two rows: three in the top row and three in the bottom row. The top row has a hollow circle on the left, a solid circle in the middle, and a solid circle on the right. The bottom row has a solid circle on the left, a solid circle in the middle, and a hollow circle on the right.

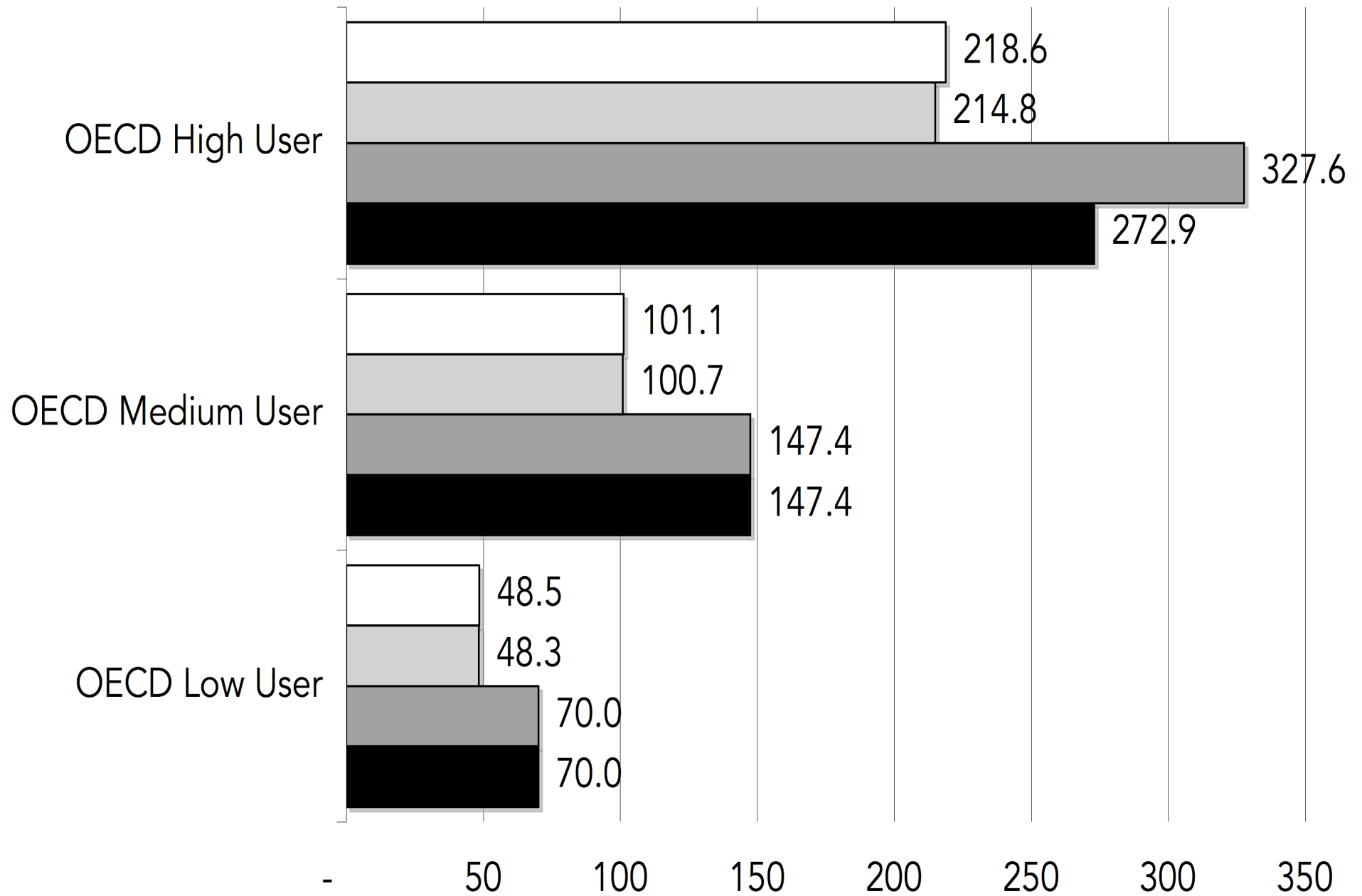
# Telecom Namibia's Switch

# Fixed-Wireless



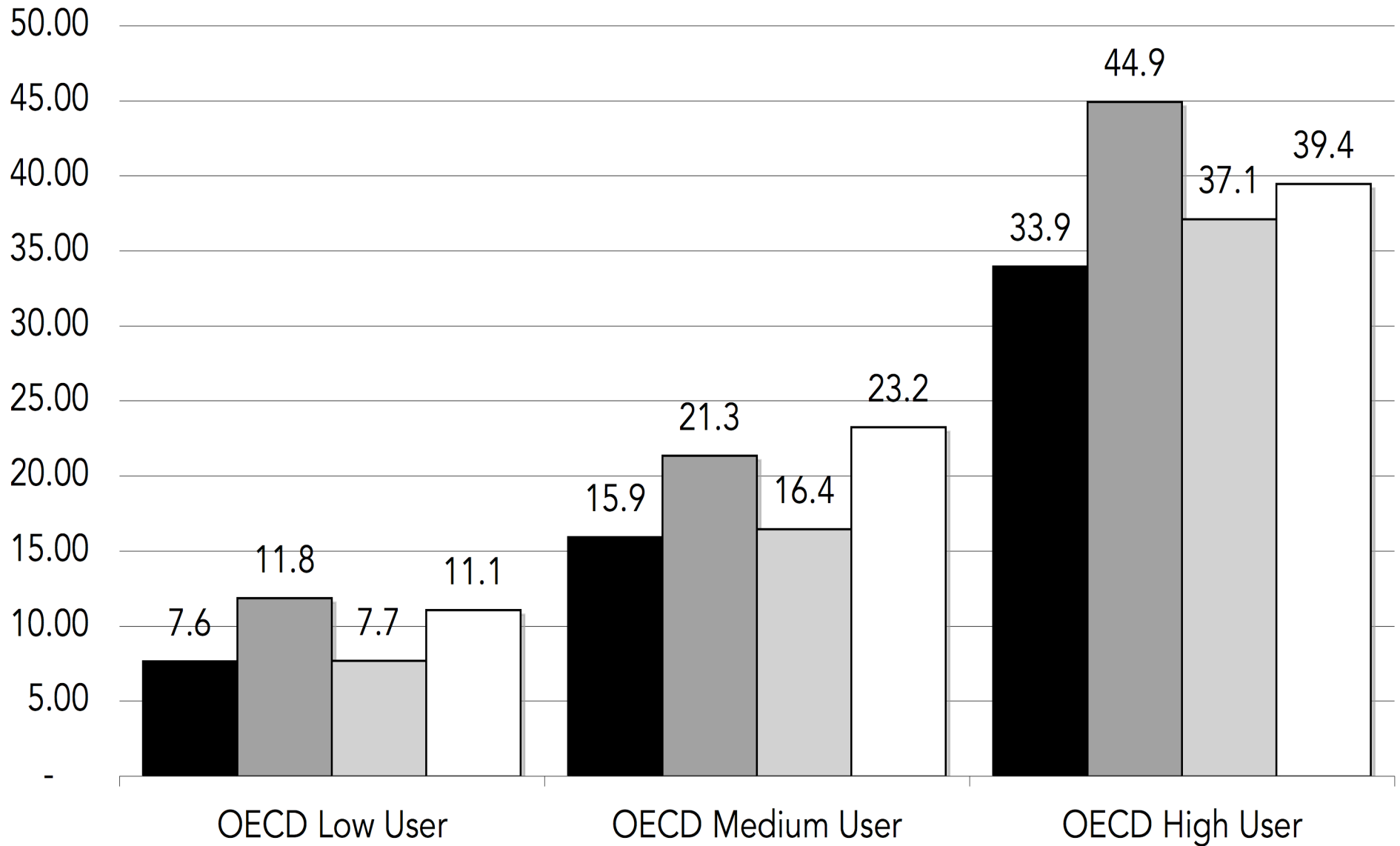
- Telecom Namibia's Switch is based on 800 Mhz CDMA2000. Rural solutions might be based on 450 Mhz
- Fixed-wireless is in principle a mobile technology and CDMA2000 is even a 3G service
- Fixed-wireless refers to mobile technologies that do not allow roaming between cells. A cell can be the size of 40 square kilometers and hence cover the whole of Windhoek or any other town in Namibia
- Fixed-wireless has the advantage that Telecom would no longer be responsible for the cabling to the premises of the customer, the PABX or the telephone, potentially reducing maintenance and service costs
- At the same time it is more convenient to the customer due to its mobility and it allows high speed Internet access

■ Cheapest MTC (excl VAT)    ■ Tango    ■ Switch Easy    □ Switch Time



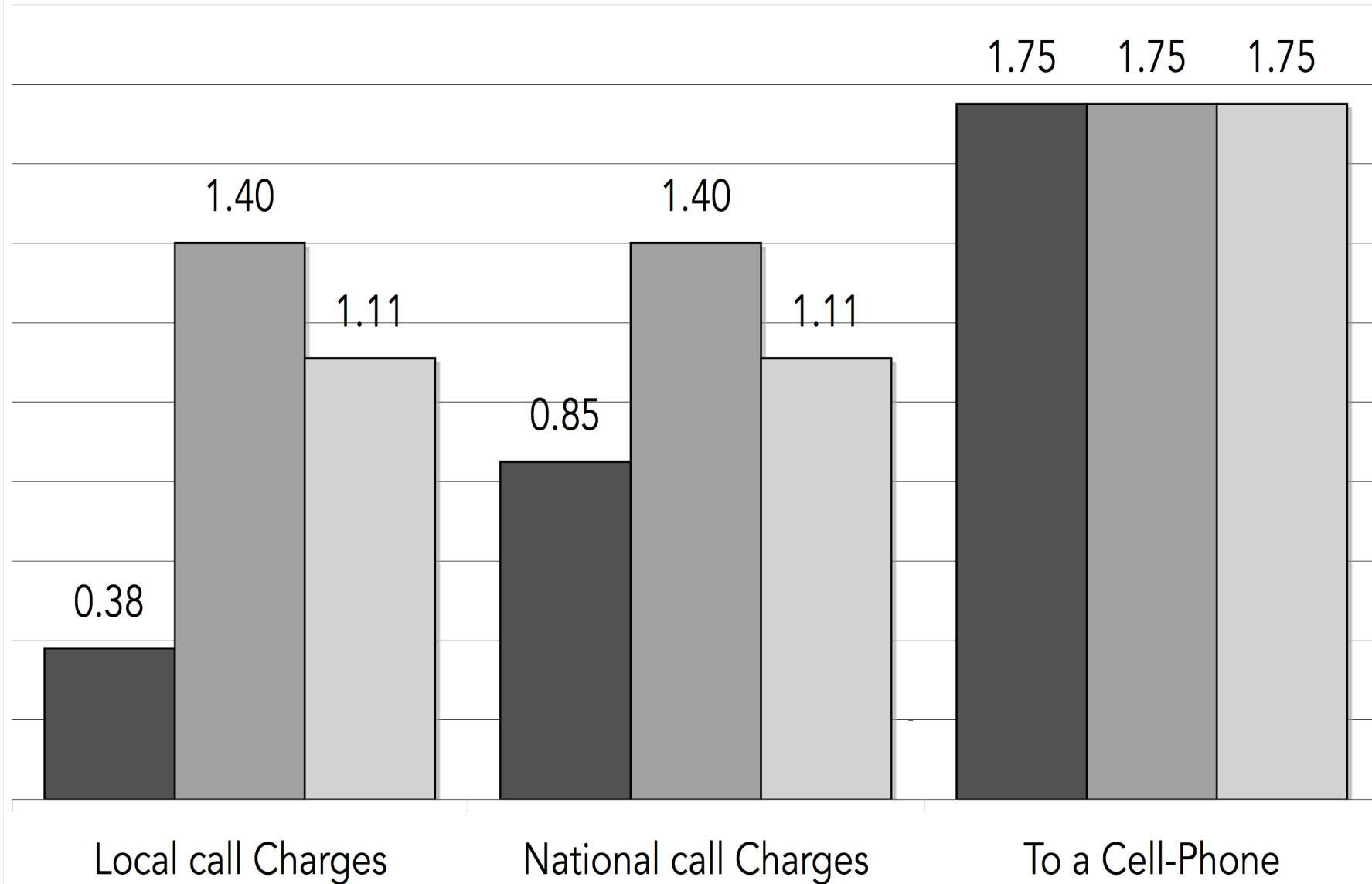
## OECD Price Benchmarking Baskets US\$ (in end of 2005 FX)

■ Cheapest TN    ■ Cheapest South Africa    ■ Cheapest Botswana    □ Cheapest MTC (excl. VAT)



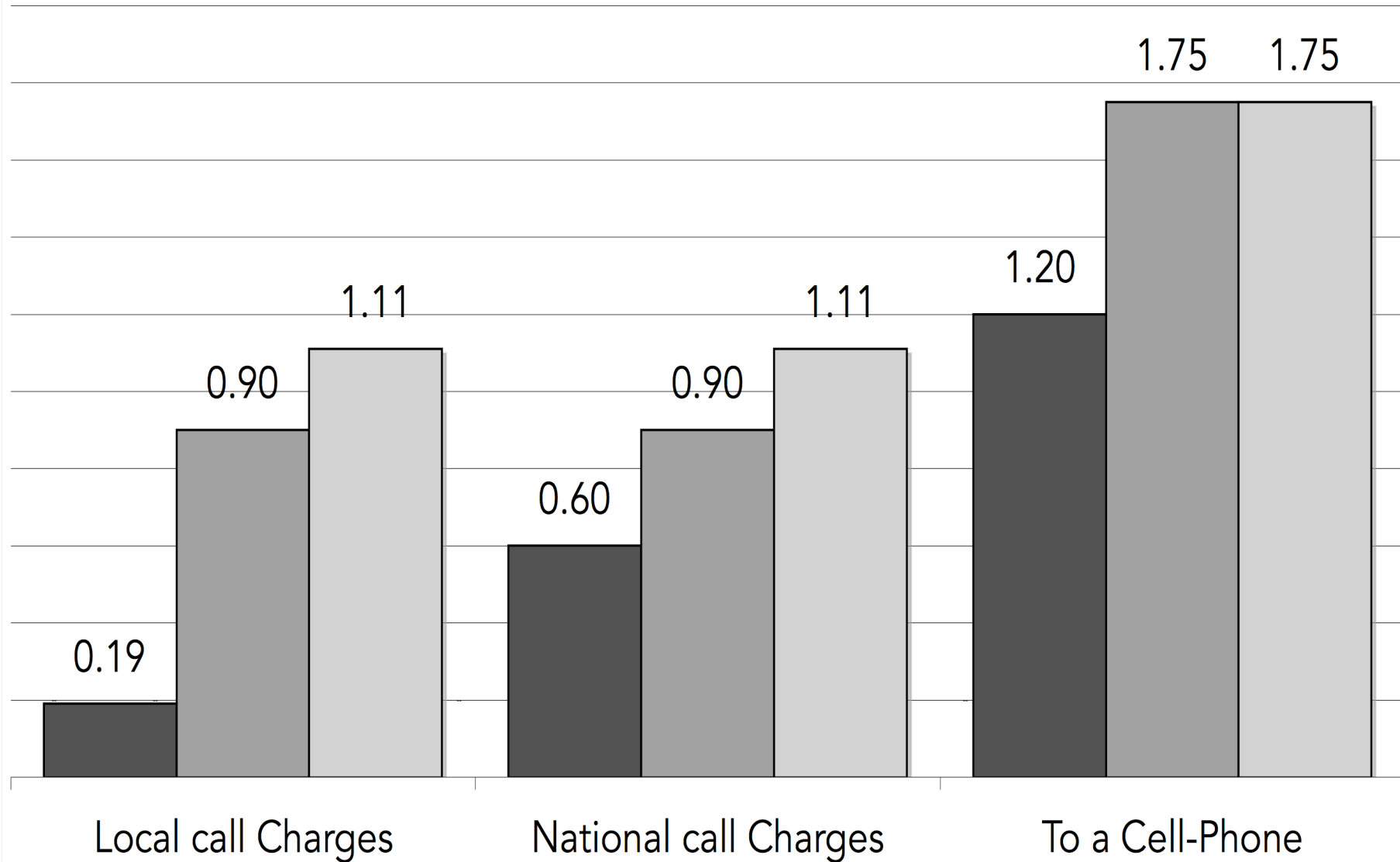
# Fixed vs Fixed-Wireless (PEAK TIME)

■ Fixed Line    ■ Swtich Time    ■ Switch Easy



# Fixed vs Fixed-Wireless (OFF-PEAK TIME)

■ Fixed Line    ■ Switch Time    ■ Switch Easy



# Regulatory concerns



- Telecom Namibia is planning to offer roaming for its fixed-wireless products. Roaming between cells makes fixed-wireless effectively mobile.
- Currently Telecom Namibia does not require any licence but the one for the frequency spectrum that it already holds to offer fixed-wireless or even mobile telephony.
- There are voices from the board of the NCC that threaten to revoke Telecom Namibia's frequency license.
- For years we have been longing for competition in the telecom sector that will lead to lower prices and increased economic growth.
- Why try and prevent operators from choosing the most cost effective technical solution to provide telephony?
- Fixed-wireless is a complementary service to mobile and fixed telephony and is used in many African countries that could not afford to roll out fixed-line telephony on a wide scale (Ethiopia, Rwanda, Uganda)

# Is Switch fair to Cell One and Portugal Telecom?



- PowerCom and Portugal Telecom knew before they invested in Namibia that there would be competition
- They must have also seen the draft telecommunication bills floating around and must have been aware of the regulatory situation Namibia is in
- Their business concept could not have been based on the hope of extracting monopoly profits
- Telecom's service targets low-income groups and current fixed line users
- MTC and PowerCom (Cell One) will therefore face competition from Telecom Namibia in the low-income segment but are unlikely to face it in the high-income segment
- The low income-segment is exactly where Namibia needs increased competition

# Will SWITCH scare off foreign investors?



- To the contrary, lower prices and a more competitive ICT sector will make Namibia more attractive to foreign investors.
- However erratic decision-making and weak regulatory environment are the best recipes to scare them off.
- Why was PowerCom the only applicant for a second mobile licence in Namibia? Celltel, Vodacom and MTN have been known for being hungry predators in that field.

# Telecom's De Facto Monopoly



# Failure to Implement Policy

- The Telecommunications Policy and Regulatory Framework for Namibia (1999) “It is envisaged that the market shall be fully open for competition by the year 2004
- By January 2007 Telecom Namibia still holds a de facto monopoly and only one mobile provider is operational.
- Contrary to what most people believe, Telecom Namibia has never had a de jure monopoly. It only has a de facto monopoly because the NCC did not award licences to break the monopoly
- The NCC only partly eroded Telecom Namibia’s national backbone monopoly by allowing MTC, in specific cases, to build its own backbone infrastructure
- The delay in policy implementation is not due to legal limitations but institutional weakness and lack of political will.
  - NCC has to serve two masters, it’s board and MIB
  - NCC does not regulate the entire sector, only MTC and now Cell One

# POSTS AND TELECOMMUNICATIONS ACT 19 OF 1992

- CHAPTER II LICENSING OF PERSONS TO CONDUCT POSTAL SERVICES OR TELECOMMUNICATIONS SERVICES
- 2 (2) No person other than the telecommunications company shall conduct a telecommunications service, except under the authority of a licence granted by the Commission.
- Definitions: "Commission" means the Namibian Communications Commission established by section 2 of the Namibian Communications Commission Act, 1992 (Act 4 of 1992)



# Is Namibia's Telecommunications Law Constitutional?

# No need for a constitutional case!

- During the RETROFIT case in Zimbabwe in the 90s, Zimbabwe's Supreme Court declared the monopoly granted to the incumbent by Zimbabwe's laws as unconstitutional.
- The reason for that was that the monopoly was found to be restricting freedom of expression.
- A similar attempt could be made in Namibia. The reasoning could be to demonstrate that the de facto monopoly of Telecom Namibia and MTC restrains poor households in their freedom of expression due to too high prices.
- Who would benefit from striking down Namibia's Posts and Telecommunications Act of 1992?
  - Removing Telecom Namibia's statutory licence and subject it to the licensing regime of the NCC.
  - Forcing parliament to pass a new telecommunications law.
- Both are likely to materialise early in 2007 anyway.



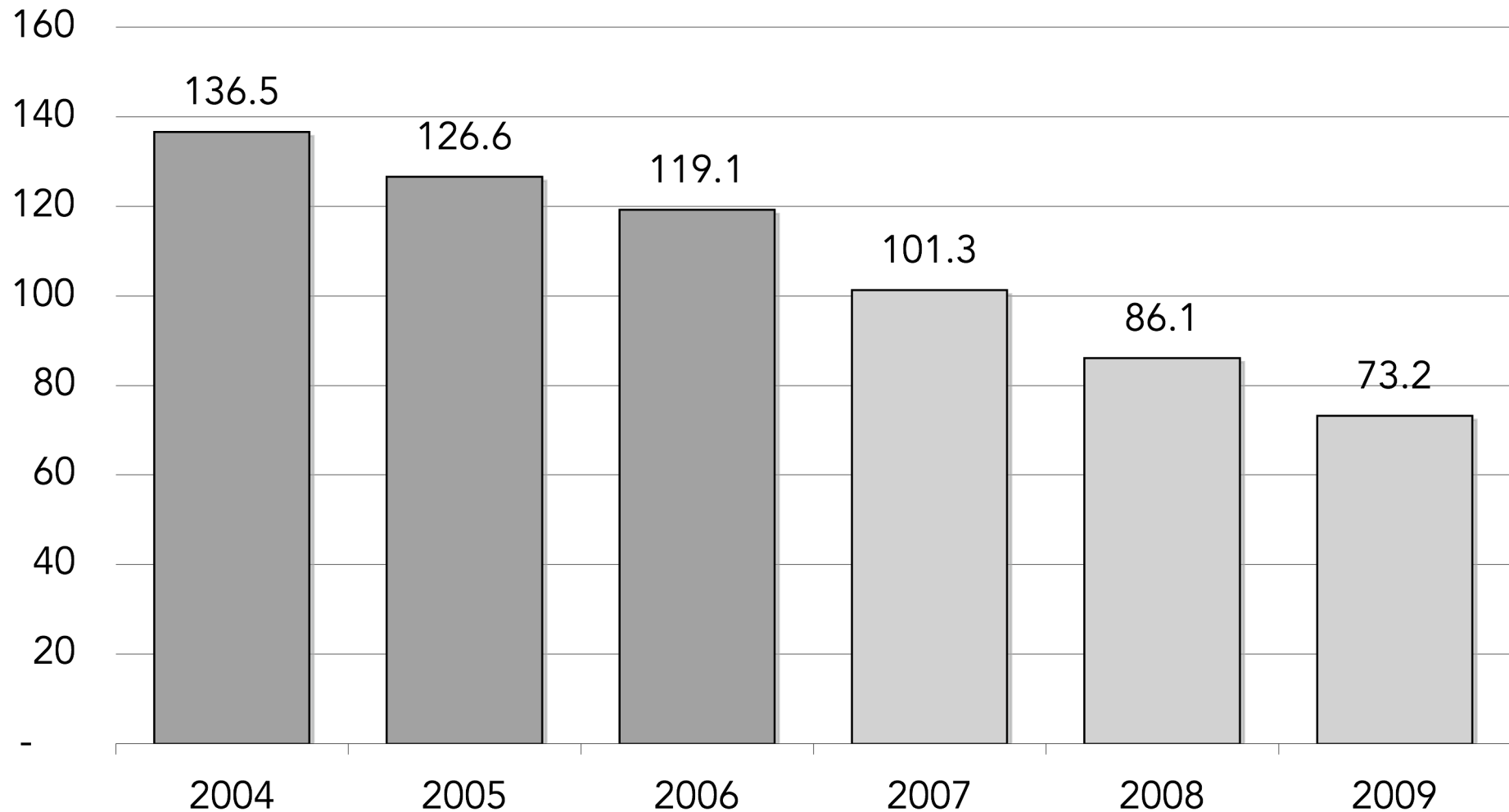
# The Changing Revenue Landscape of Competition

# Results of Telecom Sector Reform

- The new draft telecommunications bill will bring along long awaited telecommunication sector reform
  - Lower prices
  - Better services
  - Positive impact on economic growth, employment and social inclusion
- Allowing operators to establish their own backbone infrastructure (becoming self providing, including international voice and data gateways) will help MTC, Cell One and ISPs to reduce their operating costs
- It will at the same time weaken Telecom's current revenues flows

# Impact on Telecom Namibia's international revenues of tariff reductions due to be implemented to compete with VoIP

Telecom Namibia's International Call Revenues in million N\$

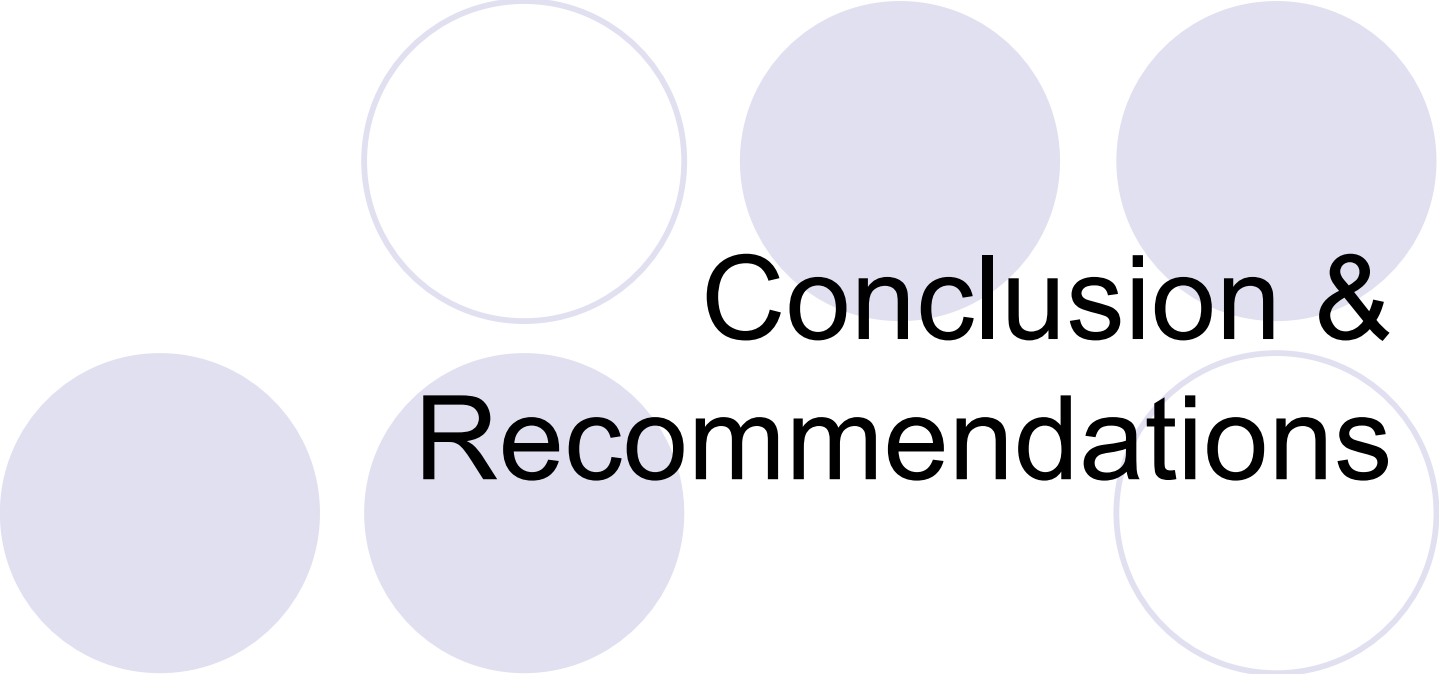


Impact of liberalisation	Cell One	MTC	Telecom
VoIP for Internet Service Providers	Mostly unaffected since international calls had to be made through Telecom Namibia		Decline of international and national call revenues (million N\$226 at risk)
Operators are allowed to build their own backbone infrastructure	Cell One could use Nampower's fibre network to gain a cost advantage	MTC's negotiating position would improve since three options will arise: use TN's or Nampower's infrastructure or build own.	Revenues from backbone provision will decline (million N\$36 at risk)
Liberalisation of the international voice gateways	Could establish their own international voice gateways to obtain a cost advantage or negotiate with TN for better conditions and cheaper interconnections		Revenues currently received from MTC for international calls made by its customers might decline. (million N\$48 at risk)
Liberalisation of the international data gateways	Both will increasingly offer Internet content over their mobile network using 3G technology. With their own international data gateway licences they would be able to do this at a lower cost than currently possible (Industry estimates 30% lower cost).		Revenues from international bandwidth wholesale decline. (million N\$9.5 at risk)
Service-neutral licenses for Cell One, MTC and TN	Cell One, MTC and TN could compete on equal terms for the voice market where the distinction between fixed and mobile becomes increasingly artificial. This competition would undoubtedly reduce prices and make Namibia more competitive.		



# Adjust or become insolvent!

- Telecom Namibia will have to adjust to this new competition or it will become insolvent. If all its current revenue streams are cut but it is not allowed to develop new ones what do we expect?
- An insolvent Telecom Namibia is in nobodies' interest.
- Hence it needs to be allowed to deploy the most cost effective technologies to meet its customer's needs



# Conclusion & Recommendations

# Competitive environment that is fair to all!

- Service and technologically neutral licences to all three operators, Telecom Namibia, MTC and Cell One
- Allows them to embrace global trends in a converging world
- MTC and Cell One might lose some revenues to SWITCH.
- At the same time they will be able to gain new ones by building their own infrastructure and offer fixed-mobile converged solutions themselves



# Compromise

- Telecom Namibia could refrain from allowing roaming.
- This would distinguish the fixed-wireless telephony clearly from mobile telephony. It would also allow Telecom Namibia to offer its services even cheaper. To allow roaming one needs to increase the number of cells dramatically to offer adequate quality of service. Roaming increases therefore the cost of service provision and requires therefore higher call charges.

## Another measure:

- Replace license fees for telecommunication licenses with a sales or turnover fee.
- It would be fair to all.
- New entrants would only pay once money is made and everyone has to pay according to what they turn over.



# Last Word

- The whole picture needs to be considered when making policy decisions. The telecom sector is too important for the development of Namibia.
- The aims of the regulator and policy makers must be that Telecom Namibia, MTC and Cell One compete fairly in an ever more converging telecom sector.